Washington State Economic & Revenue Outlook

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Association of Washington Business Annual Spring Meeting

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Spokane, WA

Summary

- We are coming out of the "Great Recession"
  - The recovery is gaining traction
  - Private spending – both consumer and business – is firming
  - Job growth has finally returned
  - Probability of a double-dip is receding
- Headwinds
  - Financial markets – volatility; credit to small business
  - Construction
  - Greek sovereign debt crisis' impact on WA will be minimal, if contagion is avoided
- WA outperformance still on track
  - Exports
  - Stable aerospace and software publishing

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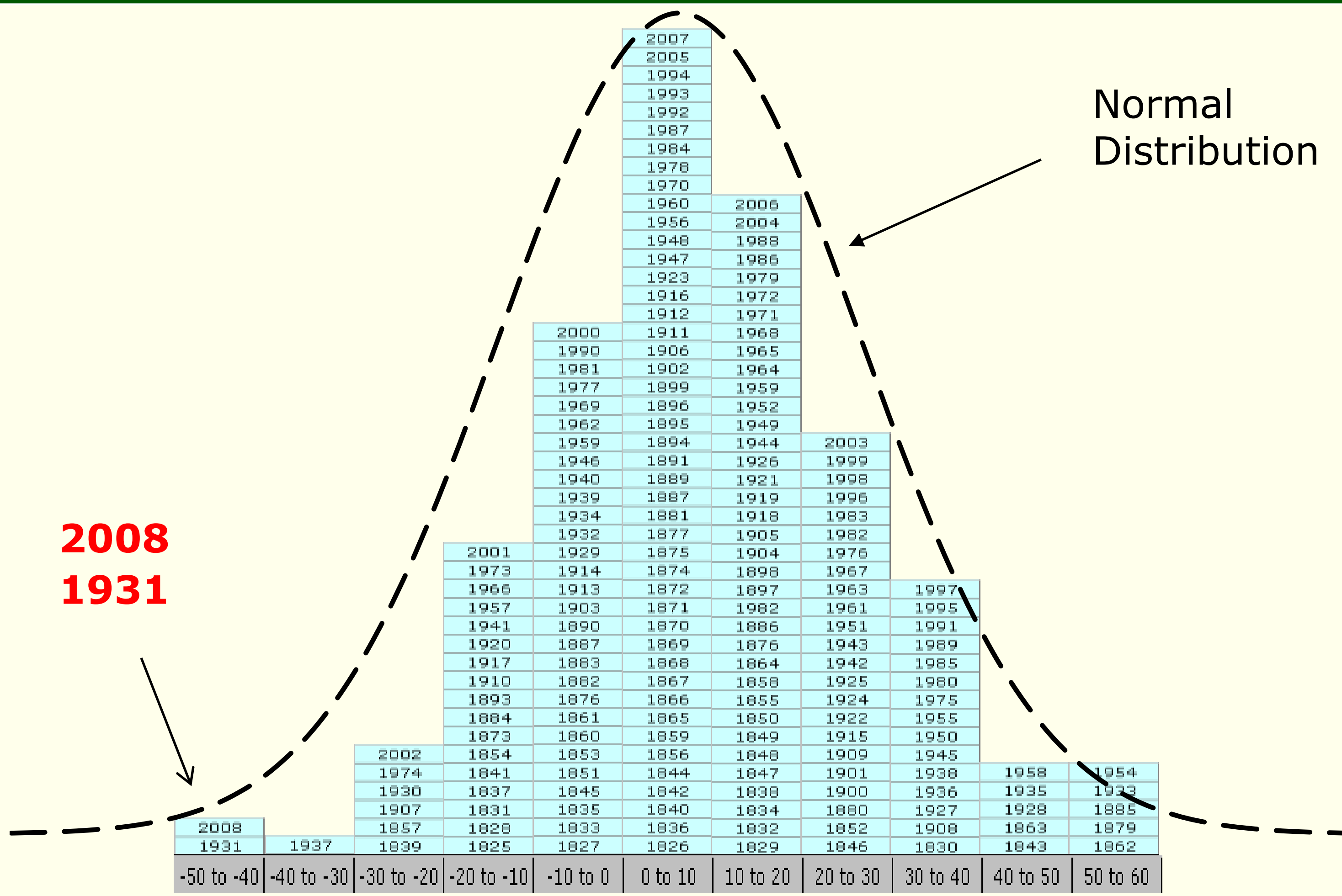
Equity returns in 2008 were a tail event

U.S. Stock Market Total Returns

1825 - 2008



Source: AXA

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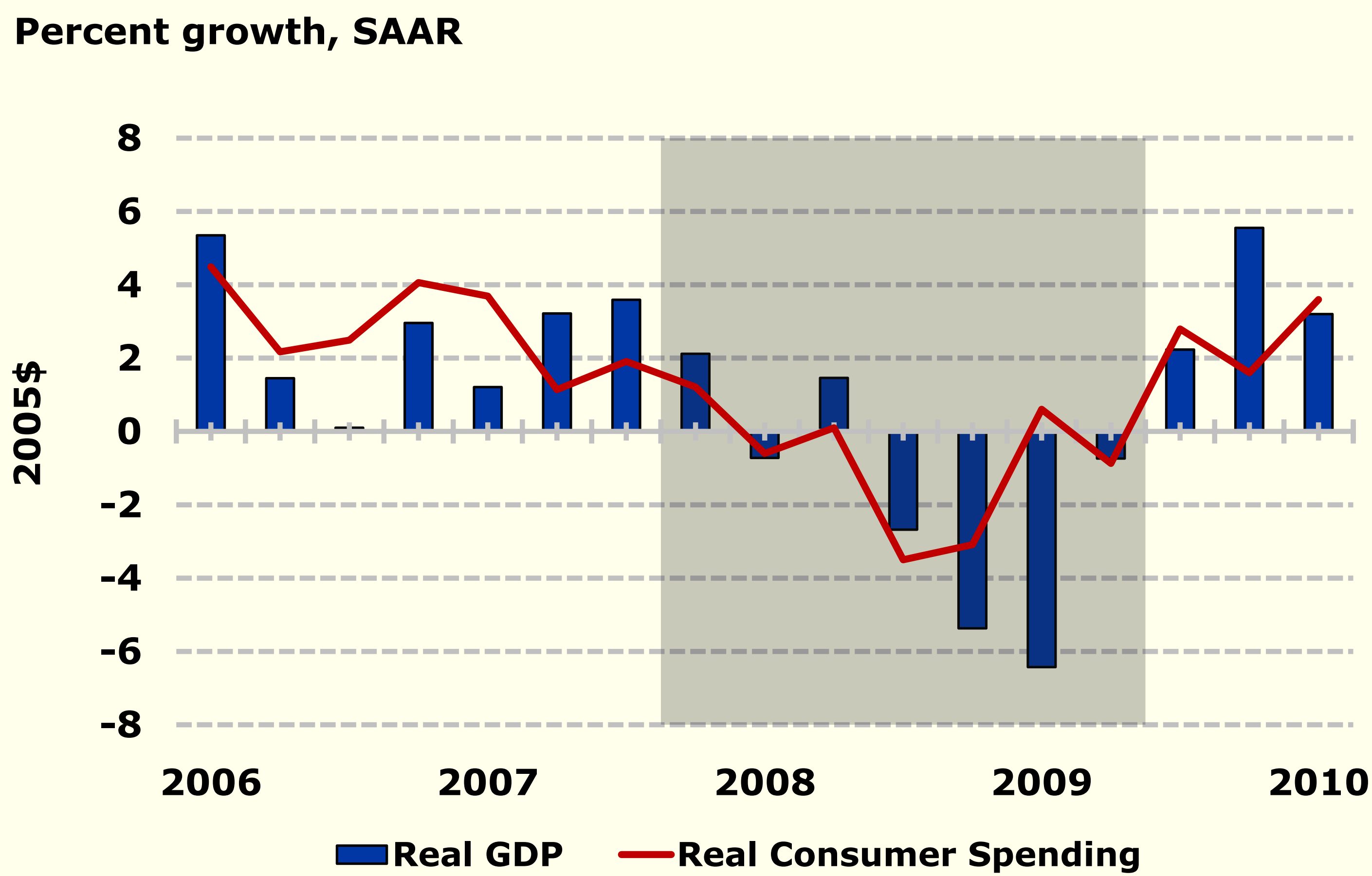
We have had 3 consecutive quarters of GDP and consumer spending growth



Source: BEA, data through 2010 Q1

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We have had job growth in 5 of the last 6 months

Source: BLS; data through April 2010

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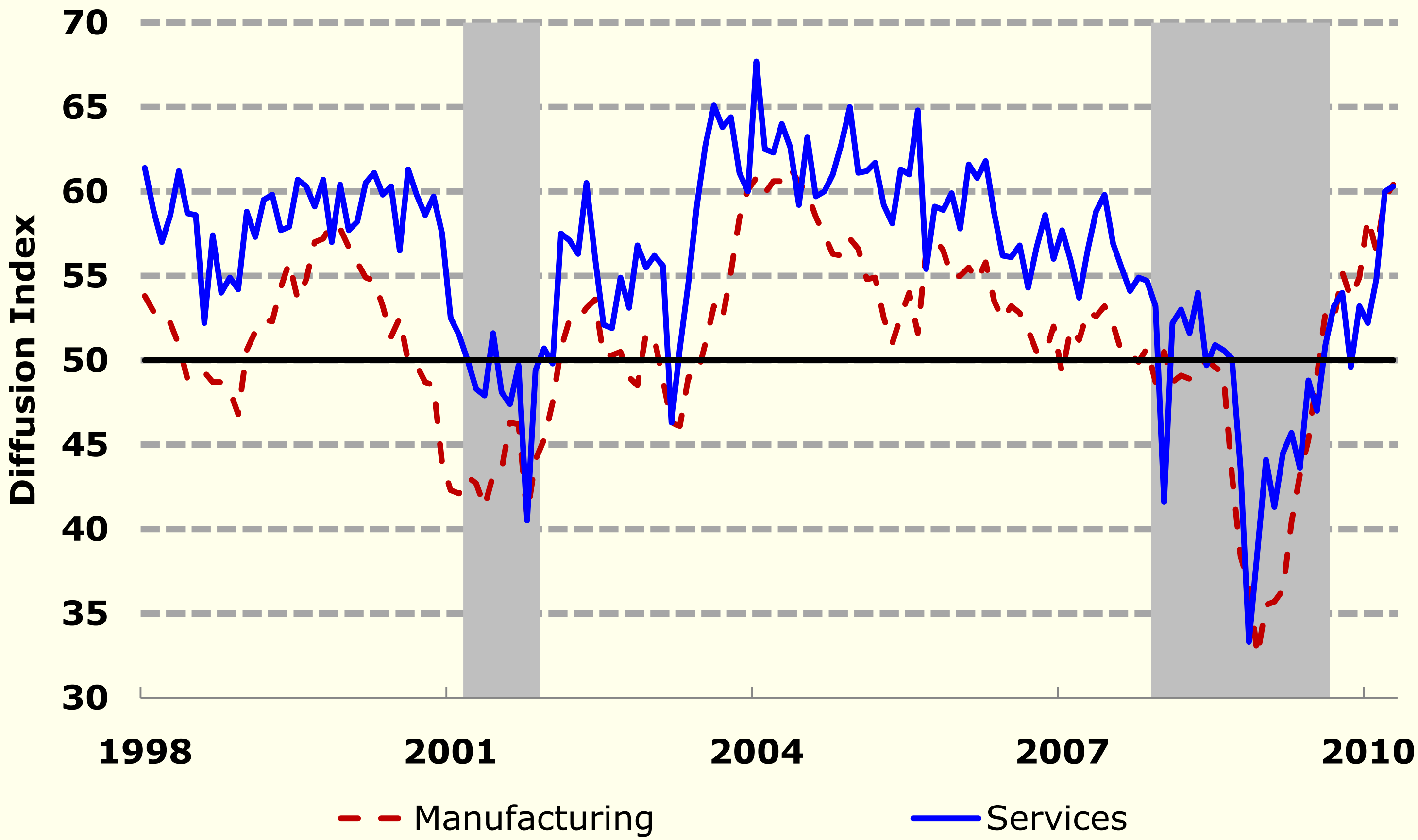
ISM indices for both services and manufacturing indicate growth

An index greater than 50, implies growth



Source: Institute of Supply Management; data through April 2010

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Increasing yield curve spread points to growth

An inverted yield curve typically precedes a recession while a steepening yield curve signifies a recovery

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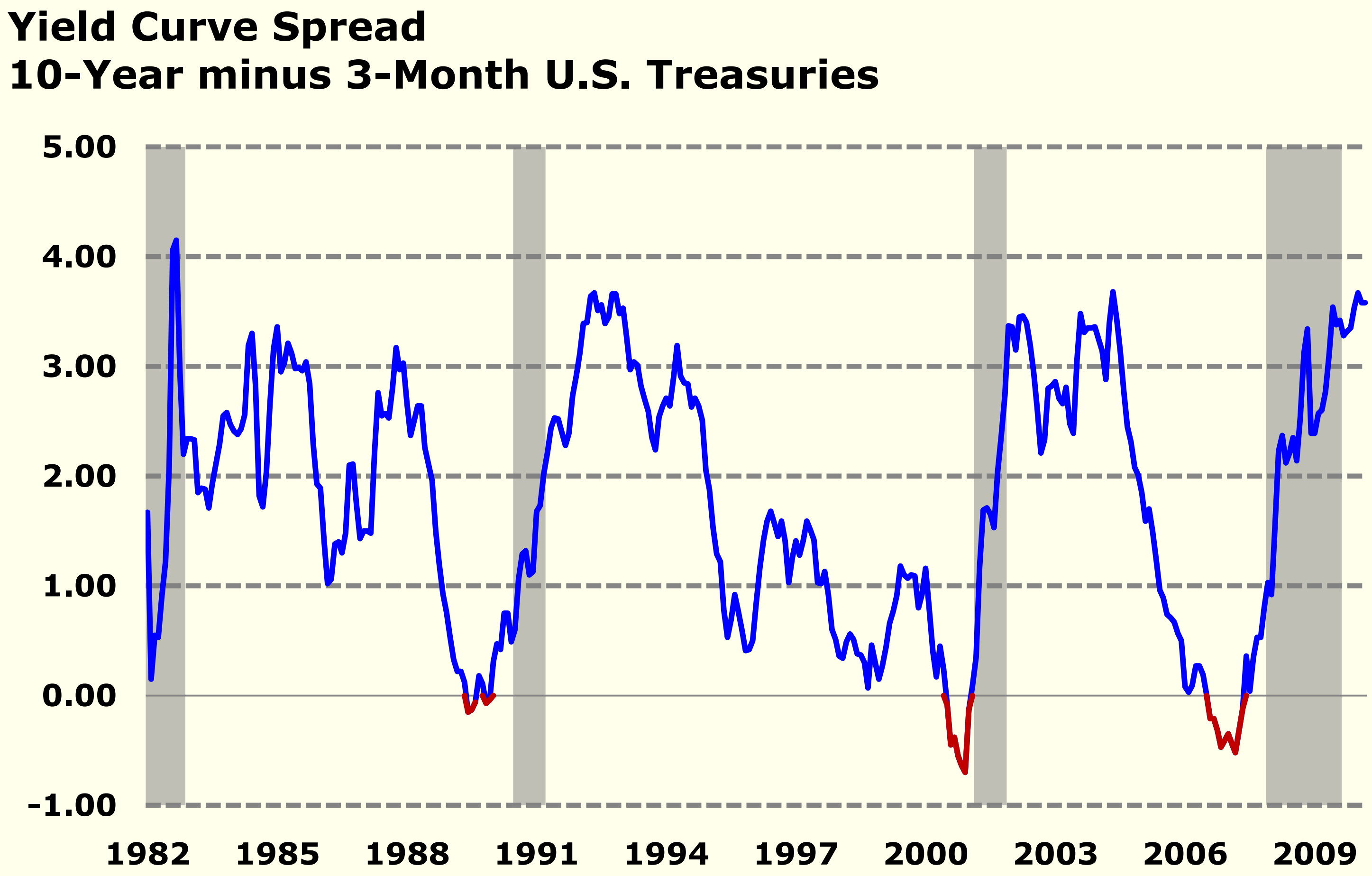

Source: Federal Reserve Board, ERFC; data through March 2010

Unemployment is still high

It is normal for this rate to continue to rise even after the economy is in recovery

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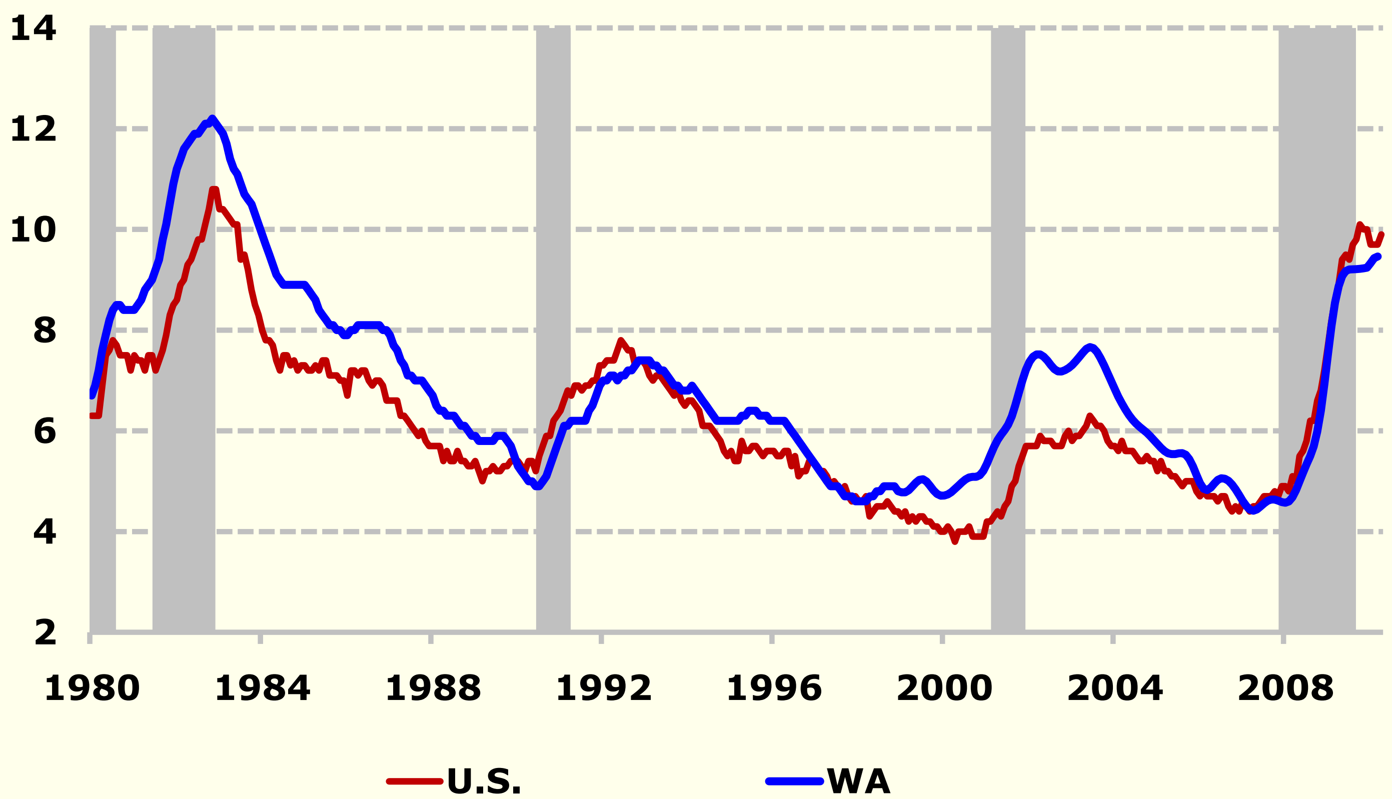
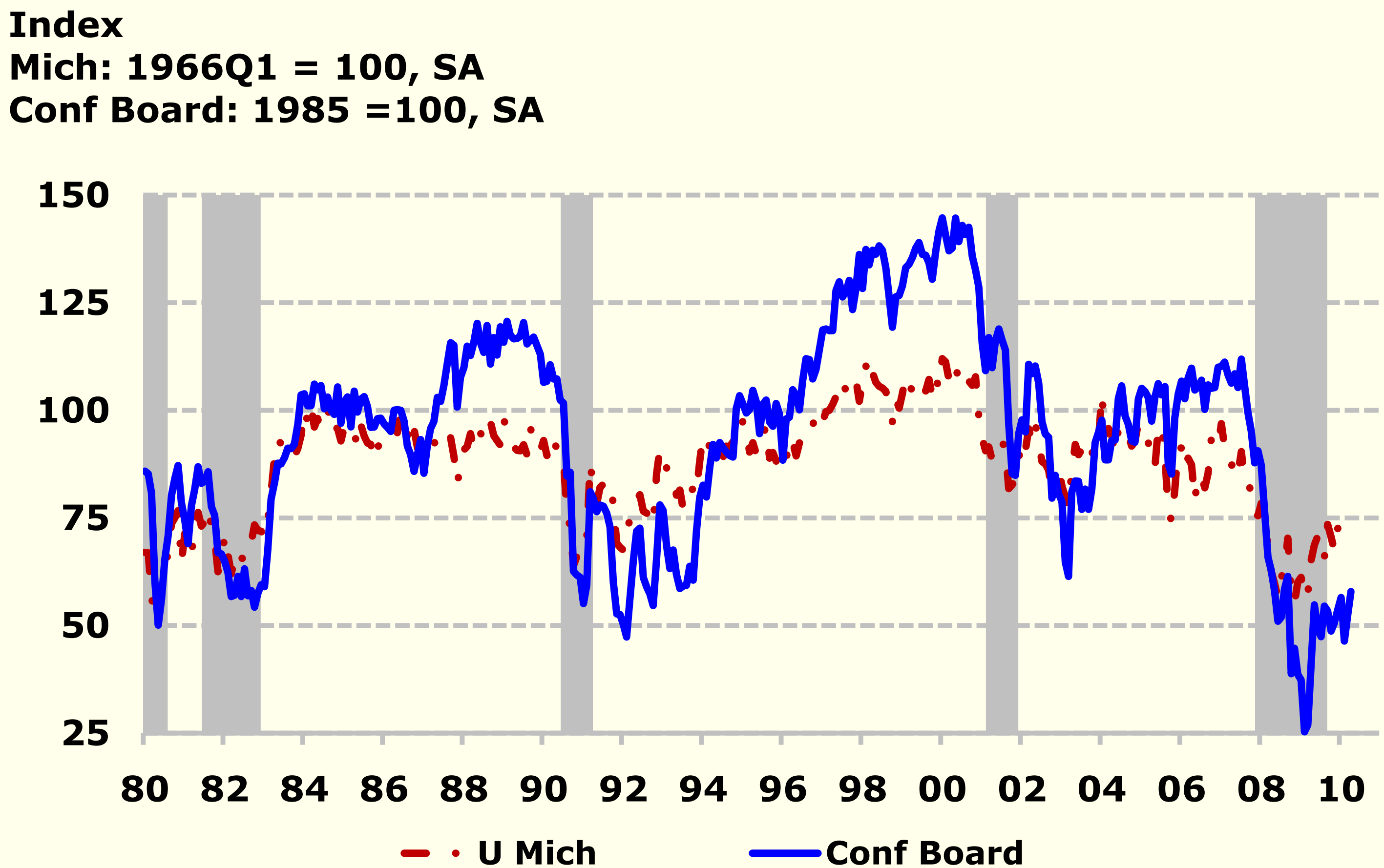
Unemployment Rate, Percent, SA



Source: WA ESD, BLS; data through March 2010

Consumer confidence is improving, but slowly



Source: University of Michigan; Conference Board, data through April 2010

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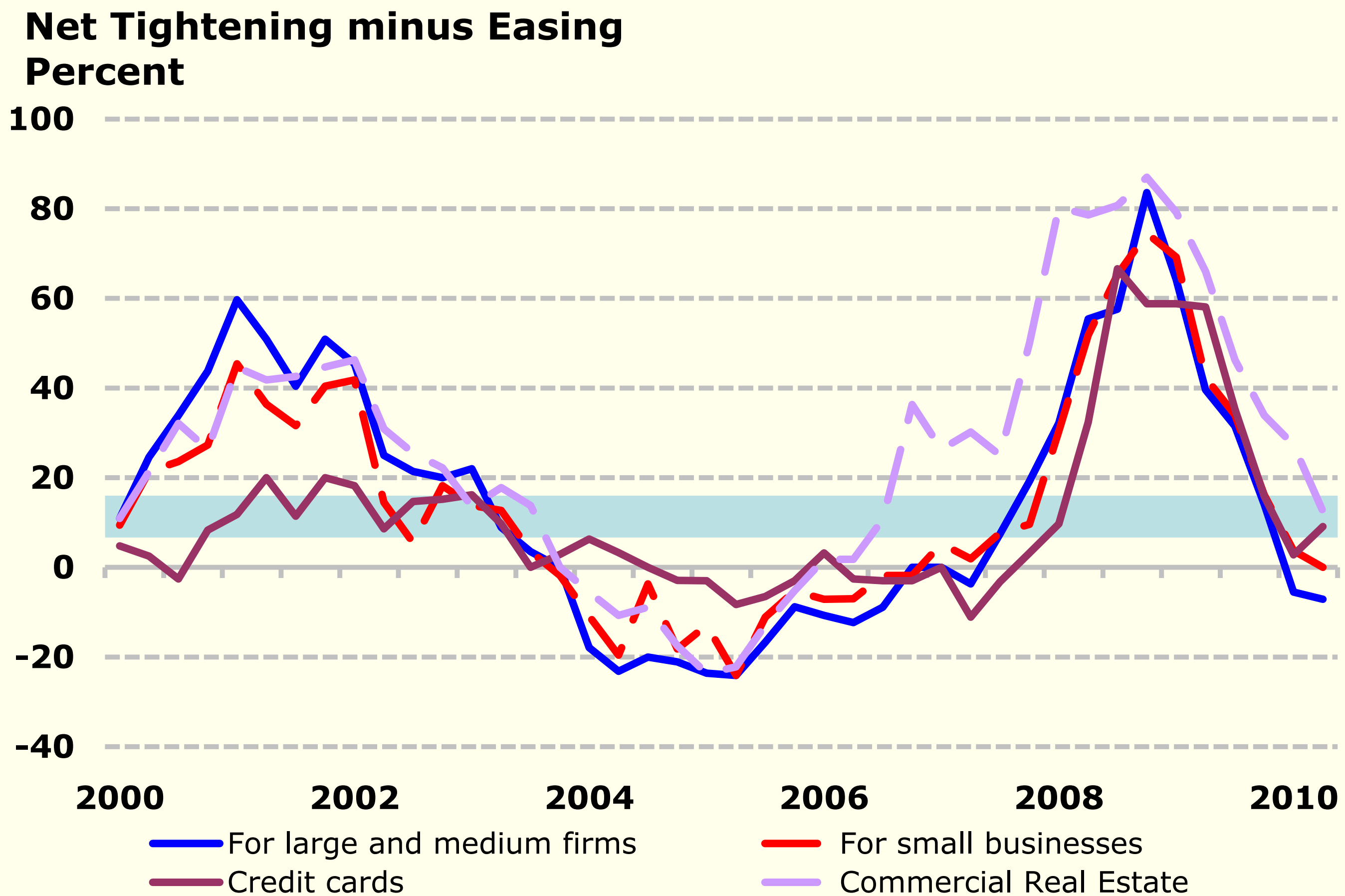
Large bank lending appears to be easing

Survey includes 60 large domestic banks and 24 U.S. branches of foreign banks



Source: Federal Reserve Board, Senior Loan Officers Quarterly Survey; data through April 2010 survey

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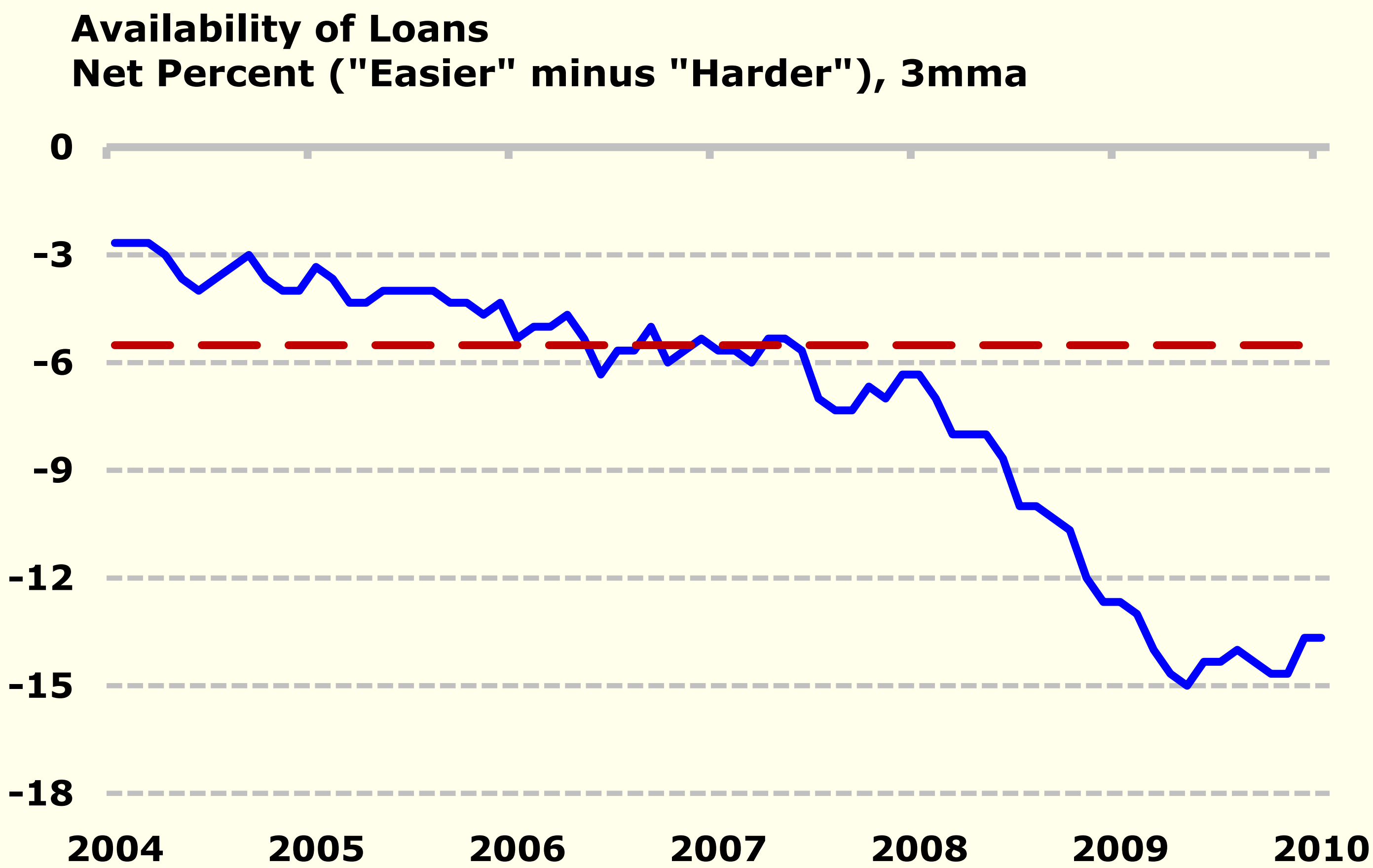
But credit conditions remain tight for small business



Source: National Federation of Independent Business; data through March 2010

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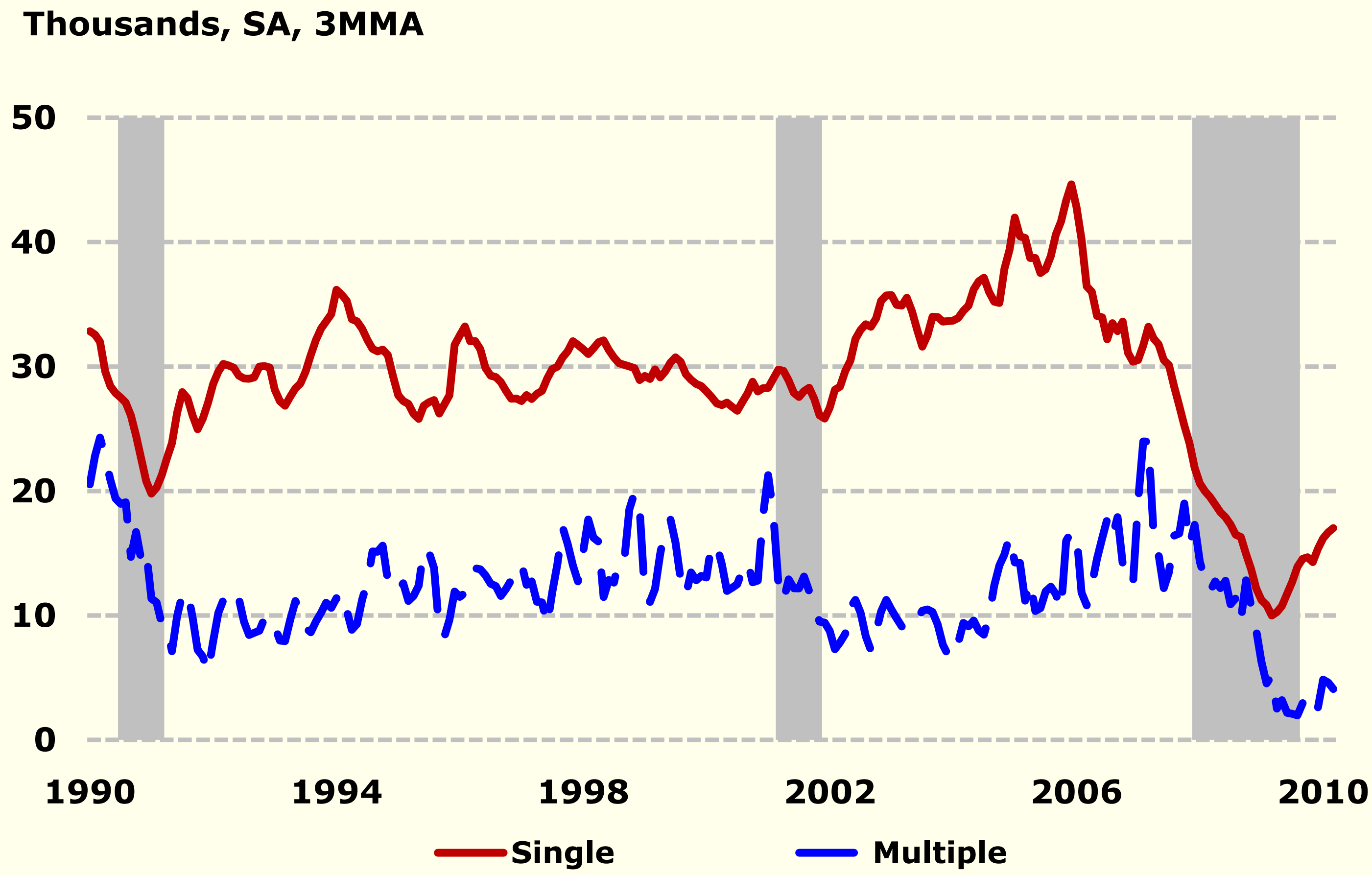
WA single family housing is improving, but mostly because of the first time homebuyer tax credit



Source: U.S. Census Bureau; data through March 2010

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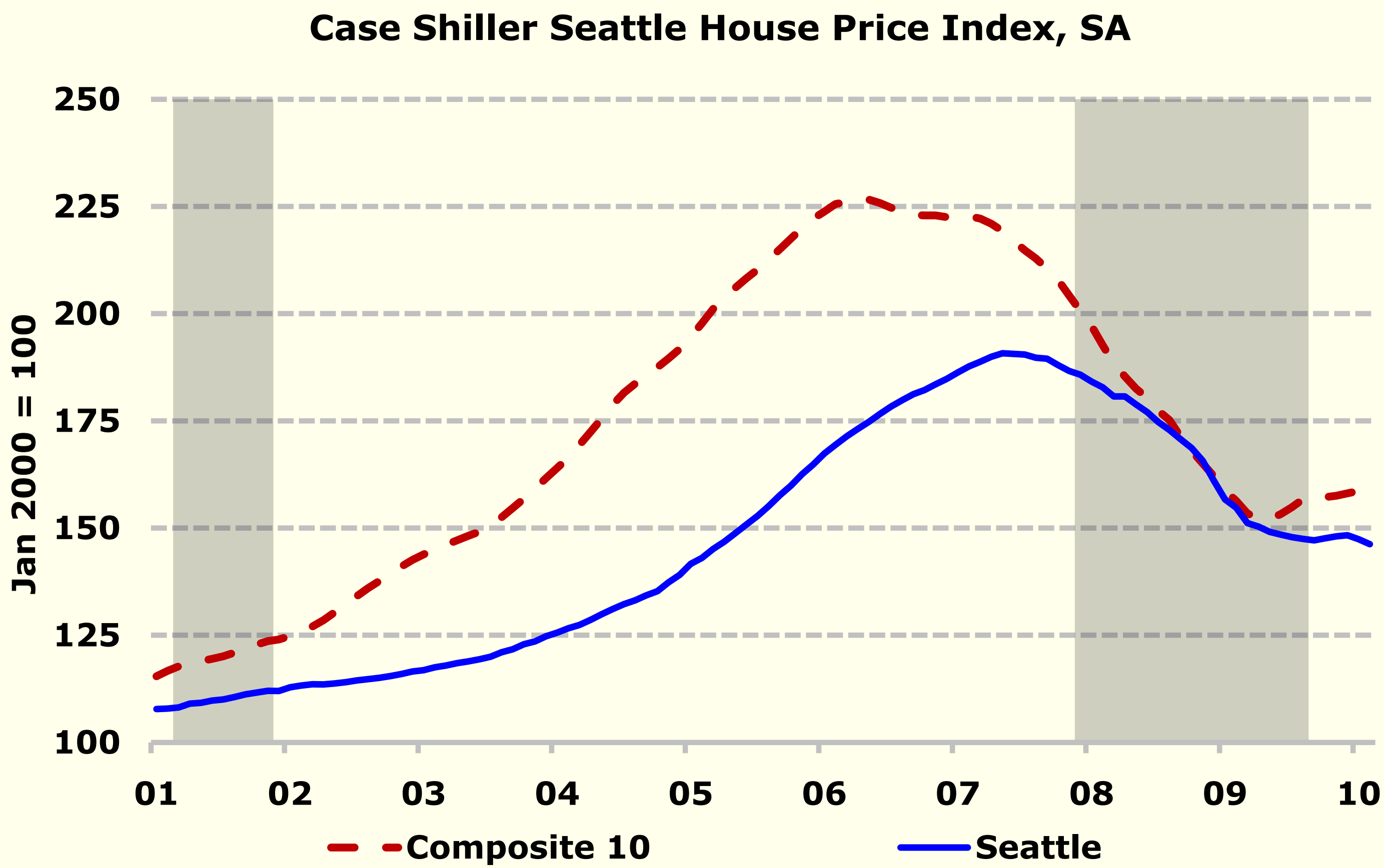
Home prices appear to be stabilizing

Seattle Home Prices



Source: S&P/Case-Shiller; data through February 2010

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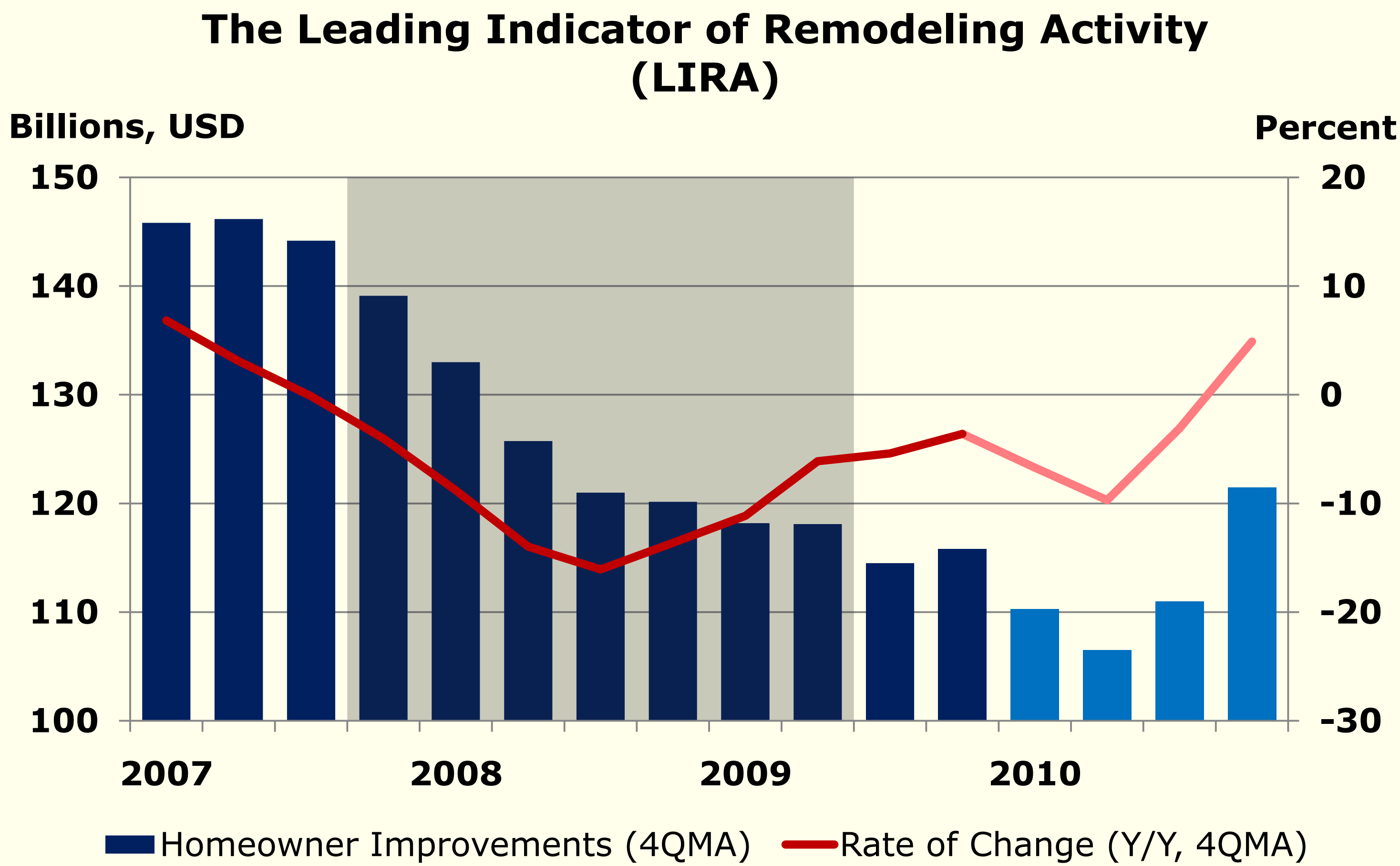
Indicator suggests remodeling improvement in 2010



Source: Joint Center for Housing Studies of Harvard University, actual data through 2009 Q4

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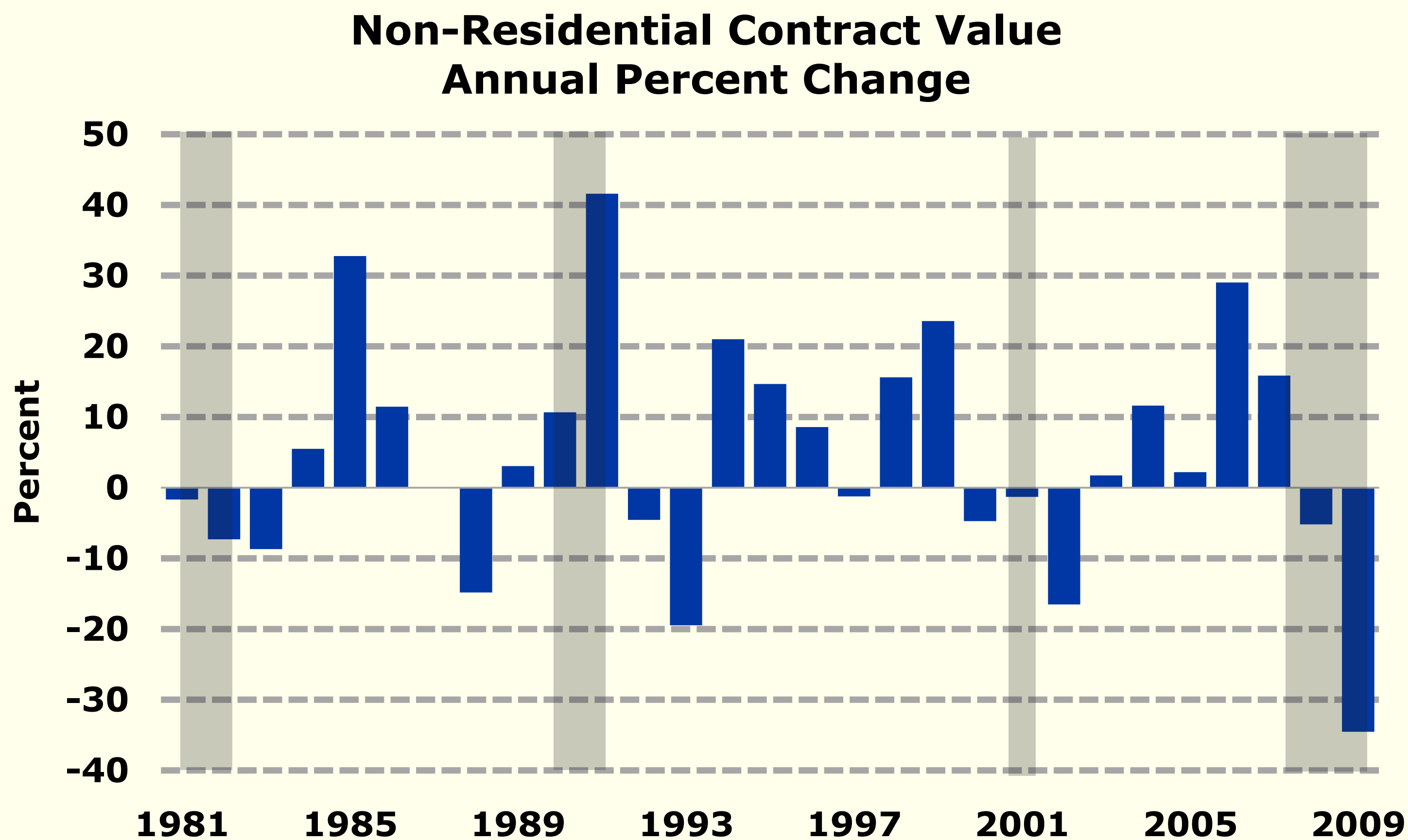
This is the worst downturn in non-residential construction in 30 years



Source: McGraw-Hill Construction, data through December, 2009

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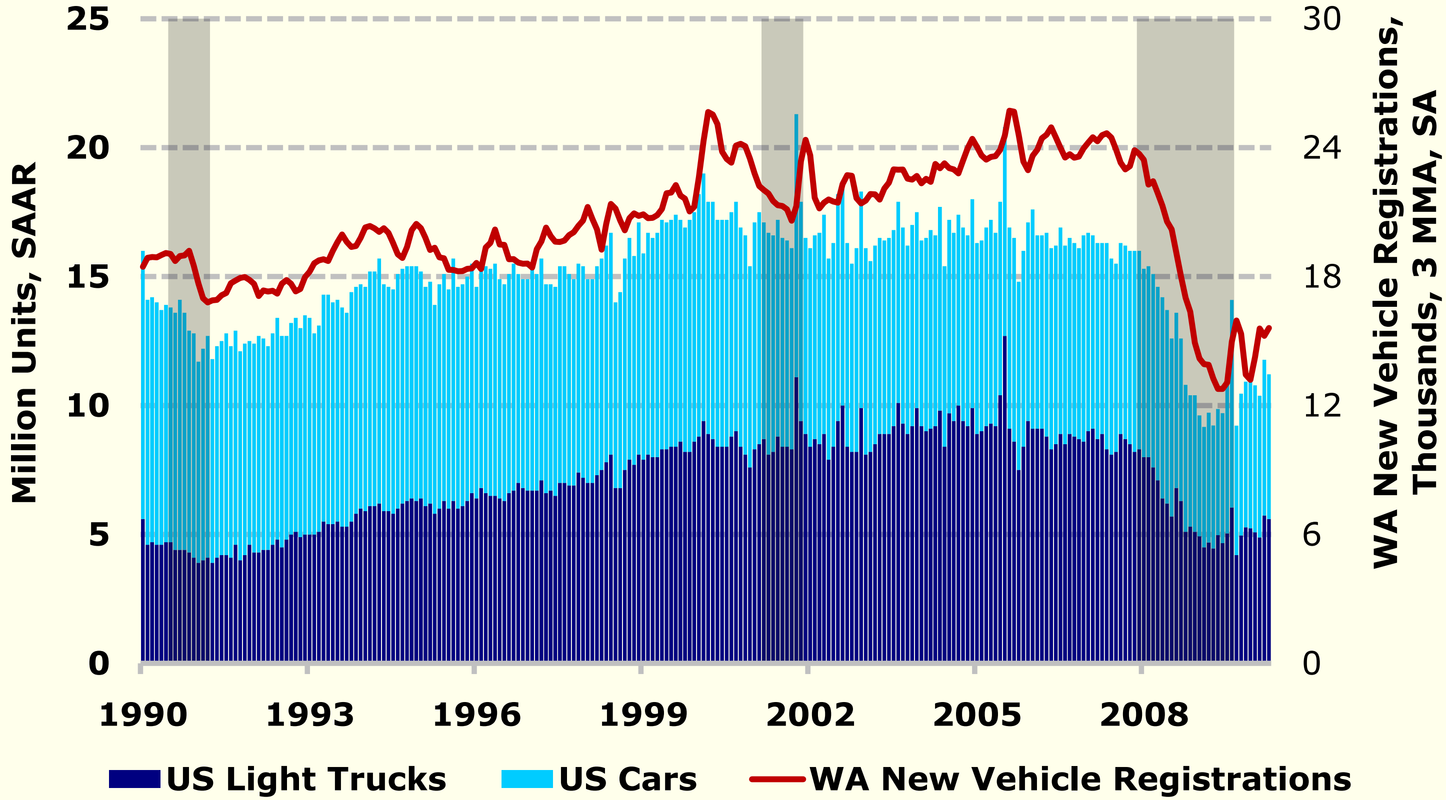
Automotive sales are improving

National car sales were 2.1 million units (ann.) higher in March 2010 than in March 2009



Source: Autodata Corporation, WA DOL; data through April 2010

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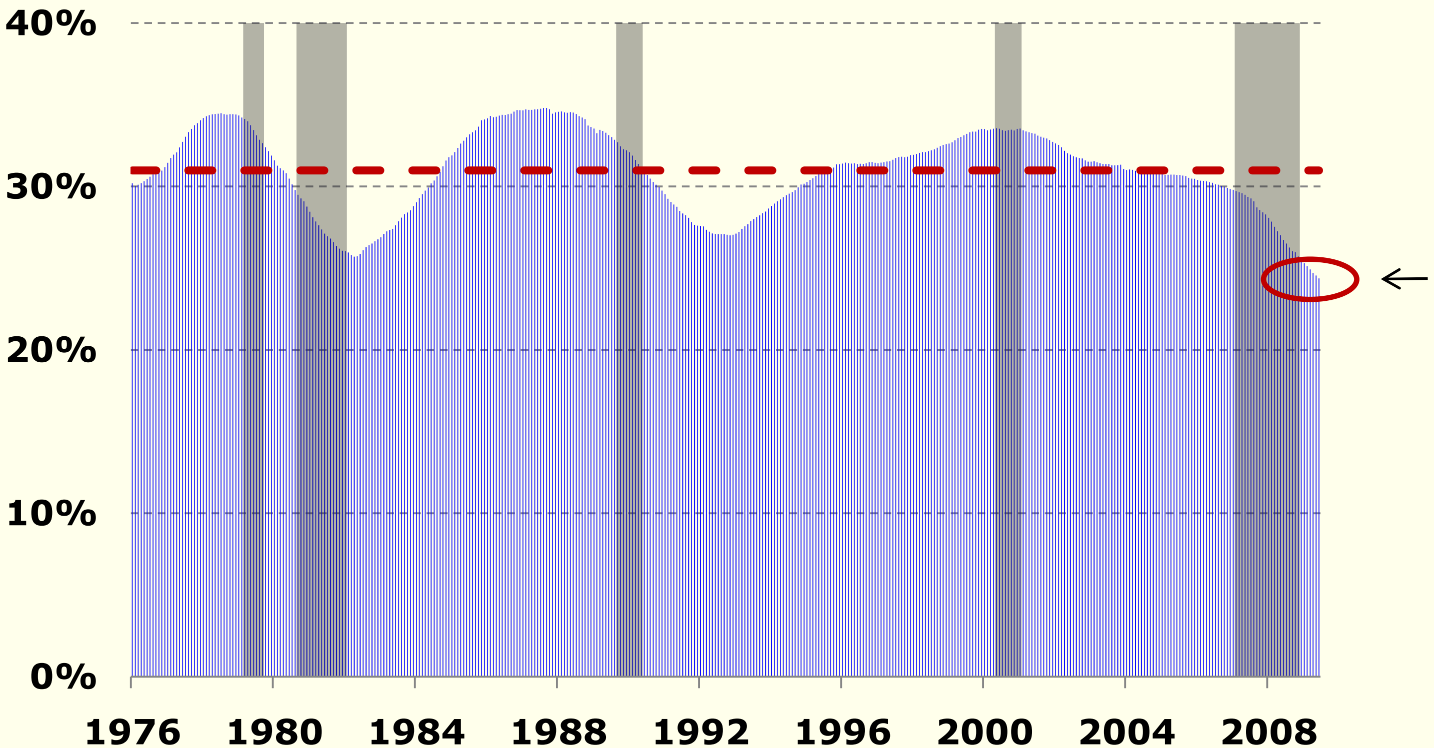
Relative age of the car fleet indicates imminent turnaround in car sales

The percent of "old" cars on the road is at a historic high

U.S. LMV Sales: Ratio of 36/120 Months



Source: Autodata Corporation, ERFC; data through March 2010

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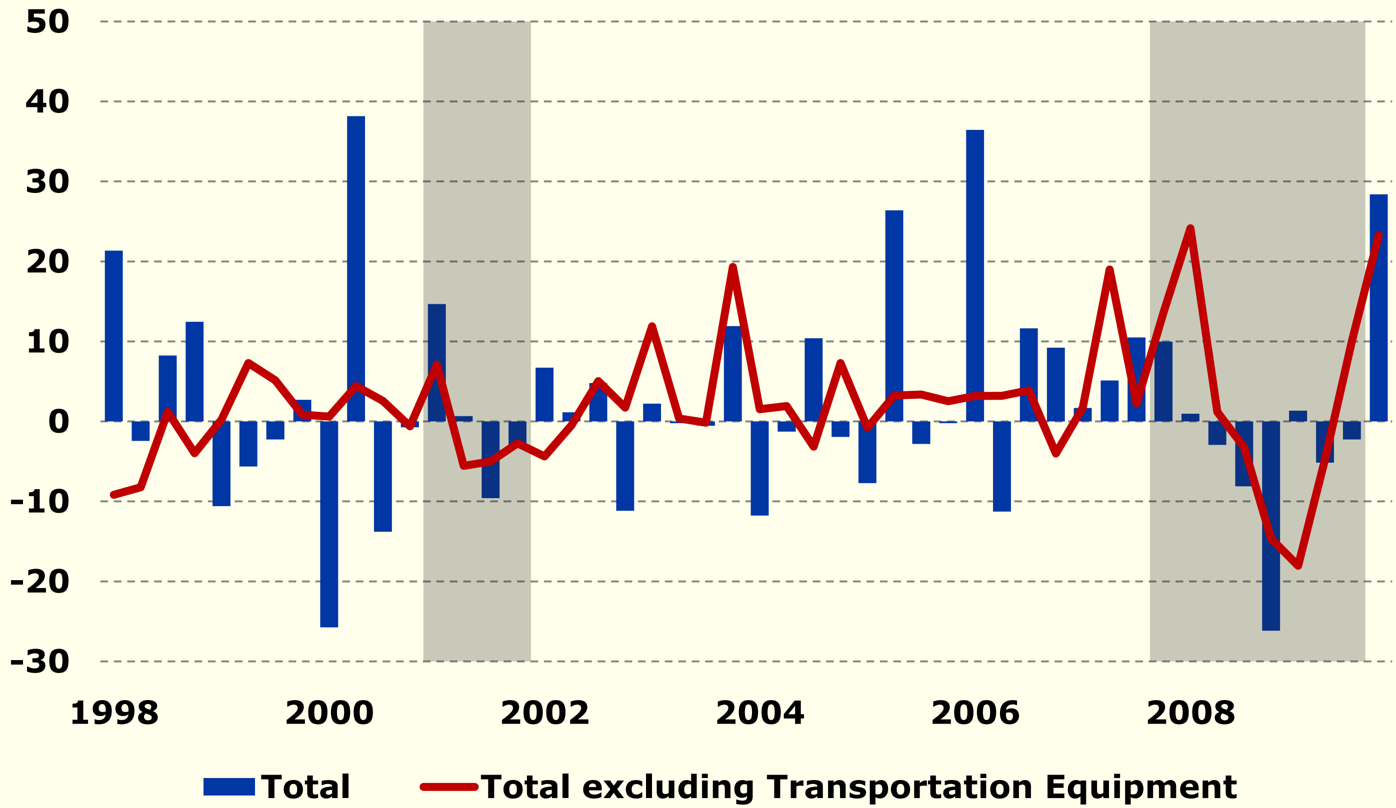
Exports will help the state recover faster than the nation

Exports, SA
Percent Change, quarter ago



Source: Wiser Trade Data; through 2009 Q4

Exports excluding transport equipment were up 23% in Q4

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Inter-bank lending has tightened, but only marginally

The spread indicates the premium banks have to pay to borrow from each other

Source: British Bankers Association, US Federal Reserve Bank, ERFC; data through May 6, 2010

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The S&P 500 VIX volatility index has spiked recently

This index is a proxy for fear and uncertainty in markets

Source: Yahoo Finance; data through May 6, 2010

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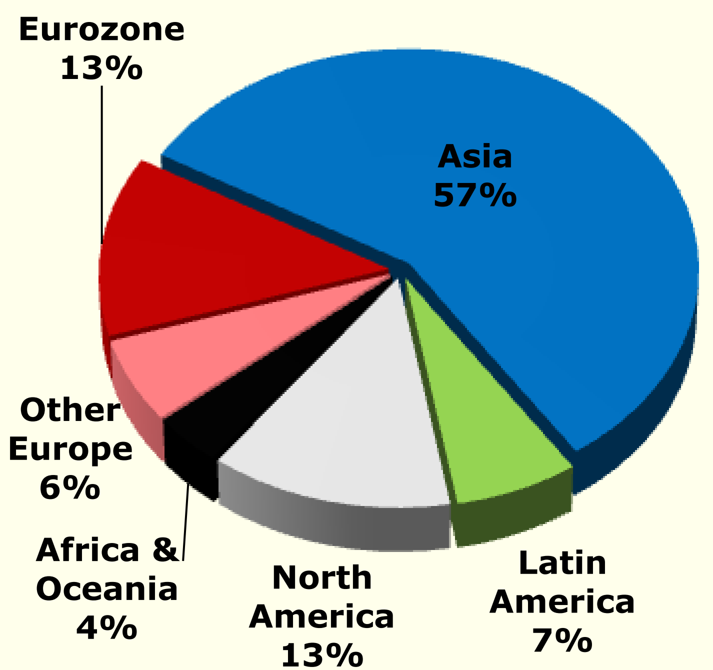
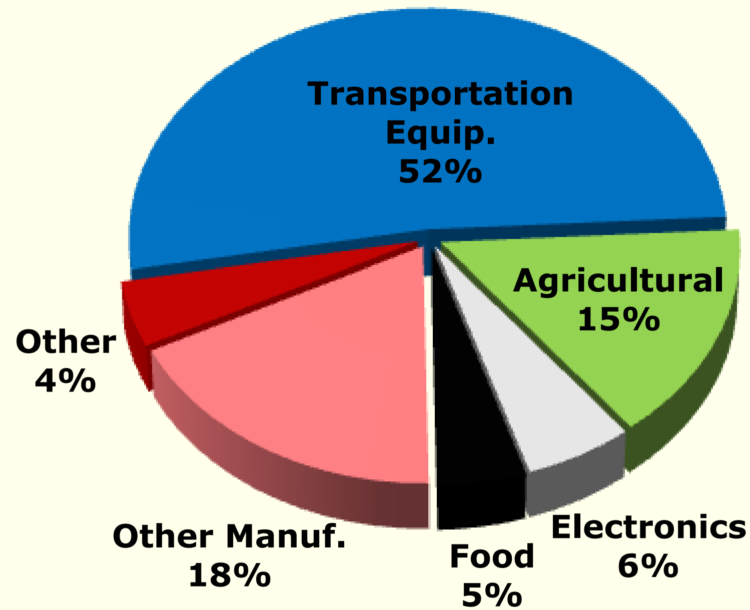
Agricultural exports are most likely to be affected by a strengthening USD

2009

By Region



By Industry



Source: Wiser Trade Data

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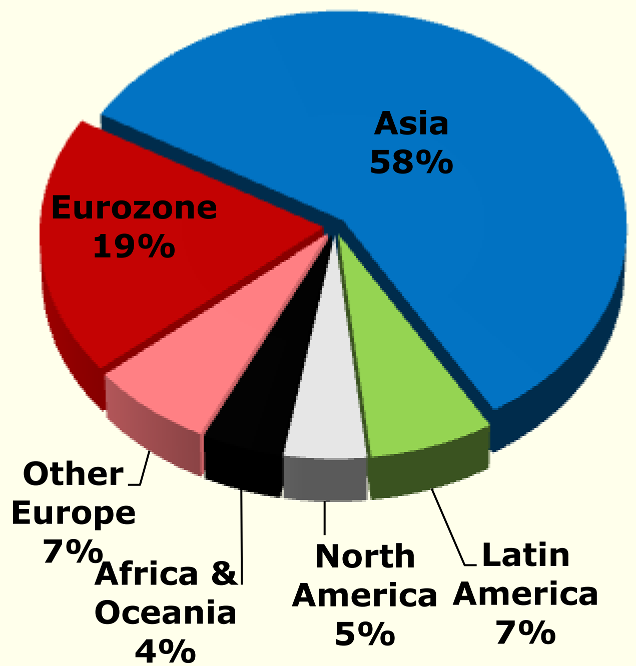
The vast majority of Washington agriculture exports go to Asia ... so not affected by a weaker EUR v USD

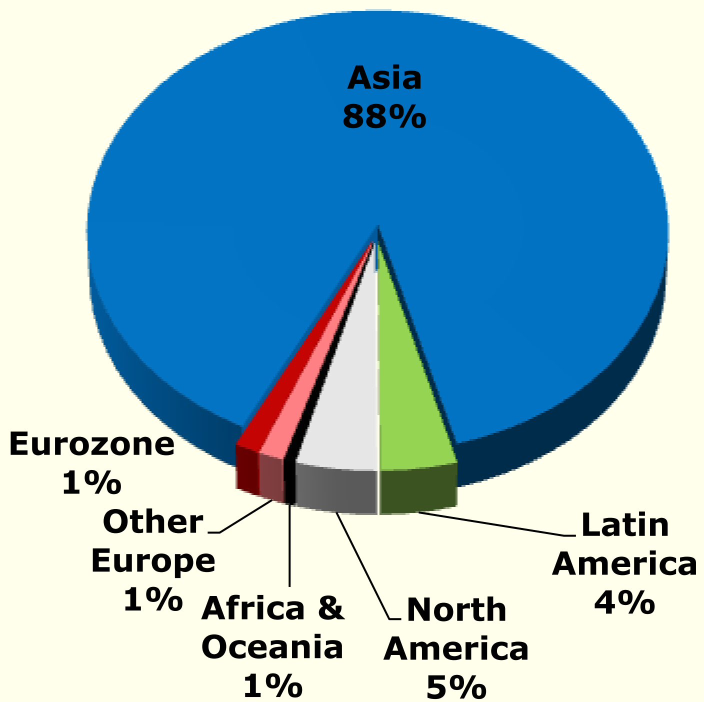
2009

Transportation Equipment



Source: Wiser Trade Data

Agriculture



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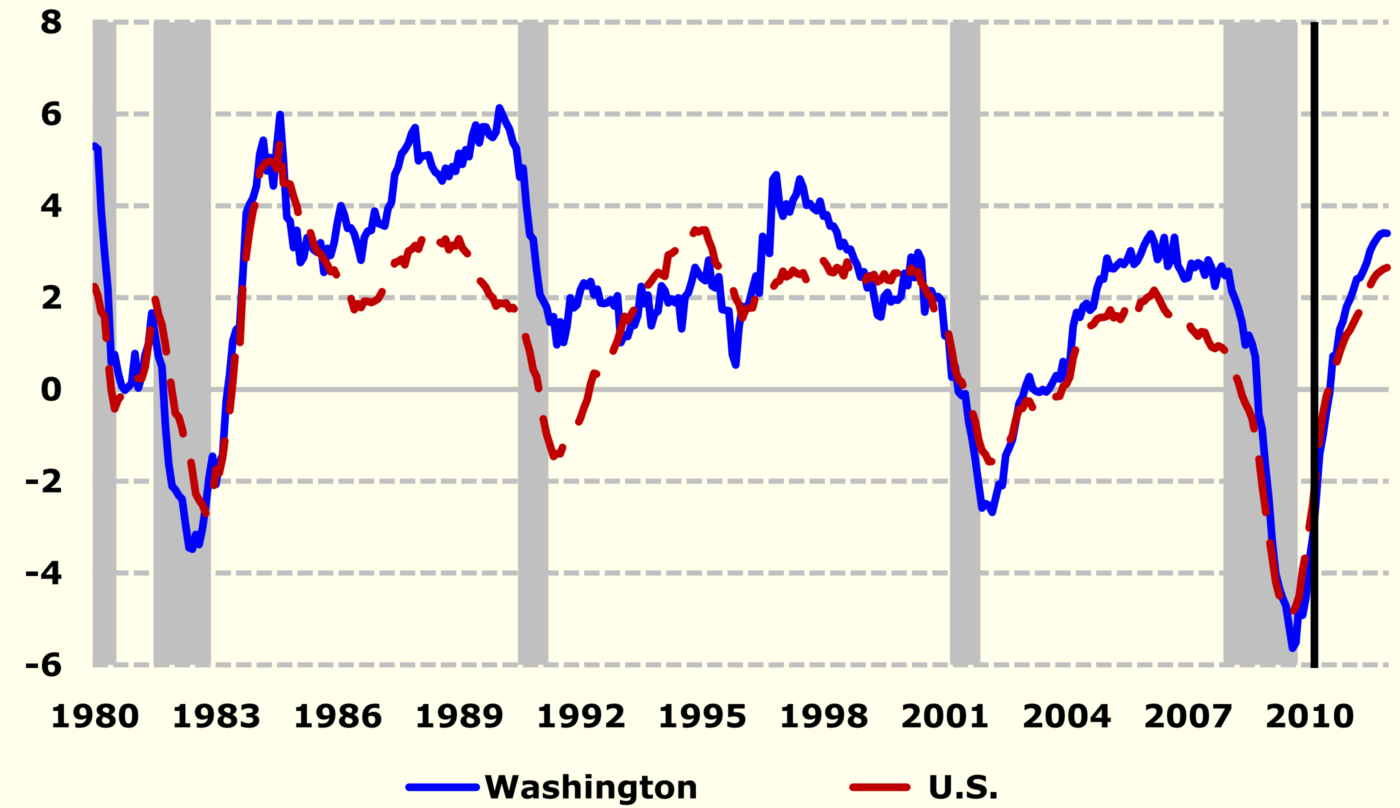
WA employment lagged the nation in the downturn and will recover a little stronger than the nation



Source: ERFC February 2010 forecast; actual through April 2010

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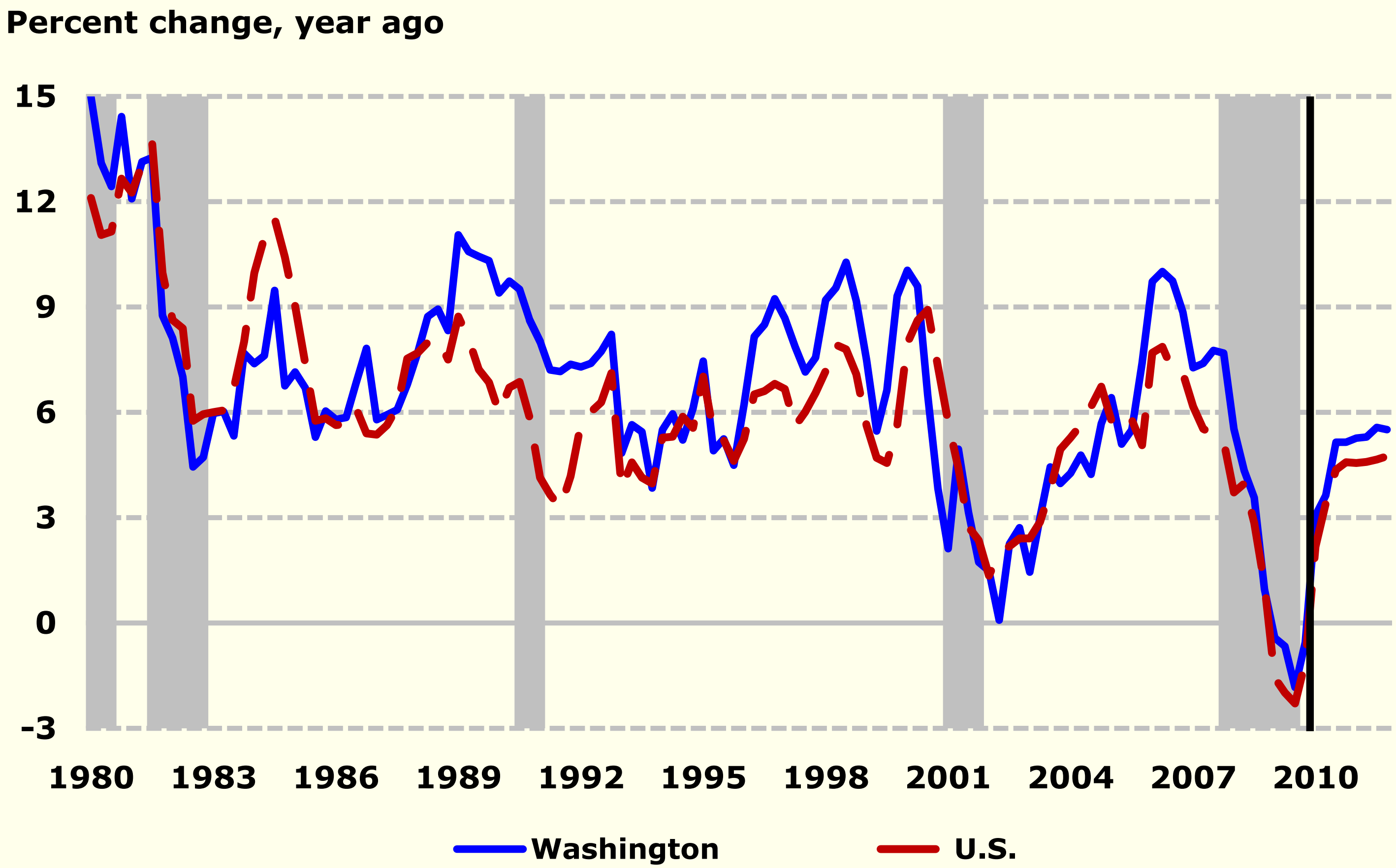
The recovery in WA personal income growth is expected to be better than the nation's



Source: ERFC February 2010 forecast; actual data through 2009Q4 WA, 2010Q1 U.S.

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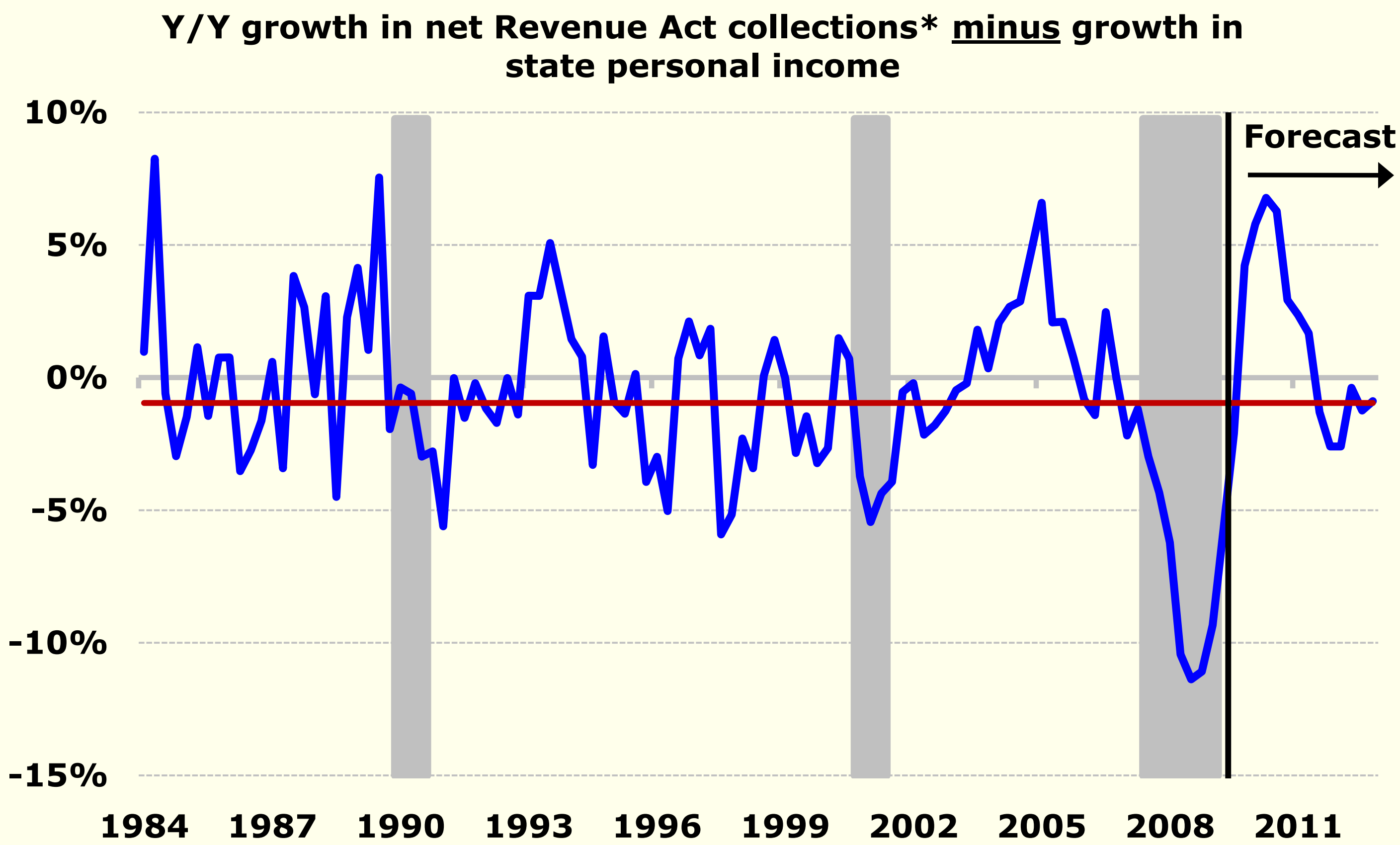
Revenue growth relative to income is starting to turn around

The difference between the growth rate of Revenue Act collections and state personal income began to shrink in the second quarter of 2009.



* Adjusted for new legislation, current definition of Revenue Act

Source: DOR and ERFC; data through 2009Q4 estimated

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Forecast changes: General Fund State, 2009-2011 Biennium

November Forecast:

$28,843 million

USD millions		February '10 Forecast			
	Collection Experience	Non-economic Change	Forecast Change	Forecast	Total Change*
Dept. of Revenue	$61	($150)	($52)	$27,245	($141)
All other agencies	$1	$0	$22	$1,479	$23
Total GF-S	**$61**	**($150)**	**($30)**	**$28,725**	**($118)**

* Detail may not add to total due to rounding

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Initial Forecast: General Fund State, 2011-2013 Biennium

USD millions

	Forecast
Dept. of Revenue	$30,658
All other agencies	$1,566
Total GF-S	**$32,224**

* Detail may not add to total due to rounding

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General Fund* forecast by fiscal year

* General Fund & Related Funds for FY 07, 08, and 09

General Fund – new definition, for FY 10-13

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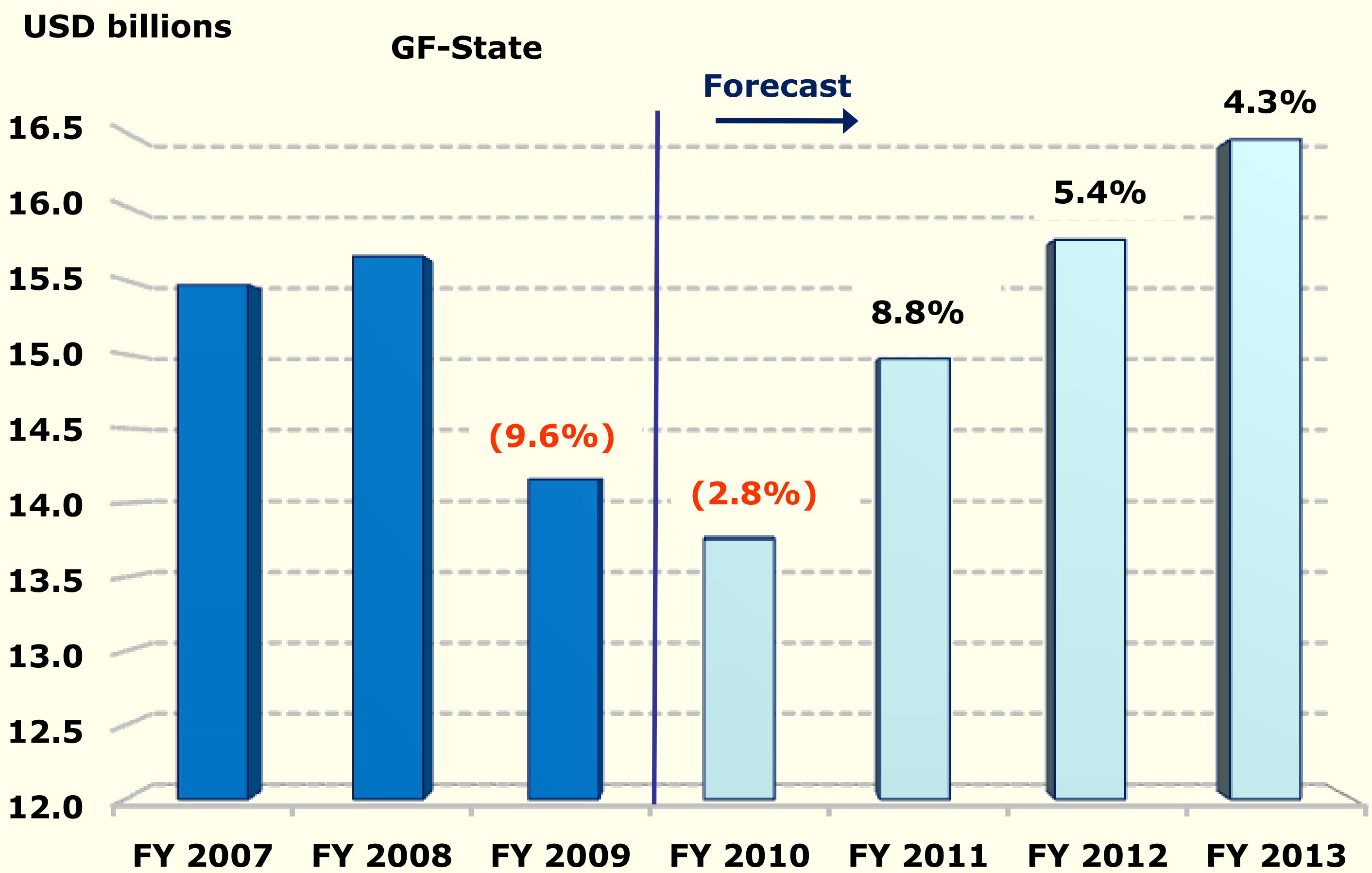

Source: ERFC forecast, February 2010

Conclusion

Pluses

- Recovery in progress
- Job growth has returned
- Car sales are improving
- Large banks able to extend credit

Minuses

- Credit still tight for small business
- Weak consumer confidence
- Slow recovery in construction
- Greece

- Revenues have come in close to our November forecast, and are bumping along the bottom
- We expect 12.2% revenue growth in the 11-13 biennium compared to the current one

Questions

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